

## **FERC commissioner says demand response needed to make electricity markets work (newsletters)**

Characterizing himself an "agnostic" on organized markets, FERC Commissioner Jon Wellinghoff said that he is prepared to bring back the cost-of-service model of electricity regulation if markets cannot be made to work. What could succeed in making the current markets work is greater use of demand-response programs, he said in remarks at the Electric Power Supply Association's regulatory affairs conference on Oct. 25 in Washington, D.C.

Wellinghoff said that right now, he sees "a battle going on for the hearts and minds of American consumers" in the electricity sector. It is not clear that markets are going to provide consumers with the best service at the most reasonable cost, he said. The ability to make these markets work depends on the elasticity of the market, he added.

Electricity markets can be made more elastic if people have a way to moderate their demand, Wellinghoff said. Technologies coming into place now are going to make demand-side programs work more effectively, he said, adding that if economic signals can be provided through tariffs, a demand-response industry will be created. This, in his view, would be better than the old "command-and-control" model of cost-of-service regulation.

Signaling increasing FERC interest in demand response, Wellinghoff said that the National Association of Regulatory Utility Commissioners plans to announce the formation of a new joint NARUC/FERC working group on demand response at its upcoming annual convention in Florida. FERC convened four joint boards, as called for in the Energy Policy Act of 2005, to study the way security-constrained economic dispatch is handled in different regions of the country. FERC filed a report to Congress on the findings of those joint boards in July. Unlike the joint boards formally convened under the Energy Policy Act, however, the new group will be an informal working committee, he said.

While stating that he is prepared to go back to cost-of-service regulation if he has to, Wellinghoff emphasized that he does not think that is the best way forward for the electric utility industry. He said that he would prefer to go forward with markets, "if we can get the demand-response piece in place."

Four of the five FERC commissioners now come from the West, and all were affected by the fallout of the Western energy crisis of 2000-2001 — Sudeen Kelly of New Mexico, Philip Moeller of Washington, Marc Spitzer of Arizona and Wellinghoff of Nevada. Wellinghoff said that Nevada probably suffered more from the California meltdown of markets than California itself did. Nonetheless, he believes that the new commission is "very committed to moving ahead to see if we can make markets work."